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SUBJECT: Visits of Secretary Locke and Ambassador Huntsman: South
China Snapshot

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for internet publication.

11. (SBU) Summary: During your visit to Guangzhou in China's
economically vibrant Pearl River Delta (PRD), you will see that the
region was hit hard by the fall in exports that followed the global
financial crisis, but is starting to show signs of recovery,
including a tighter labor market. The continuing expansion of
China's domestic economy has helped some firms in the region prosper
in the face of the downturn. Increasingly firms are turning to the
domestic market, but export manufacturing will remain a critical
engine of the PRD's economy. Guangdong's "double transfer" policy
to upgrade the economy remains a centerpiece of the province's
development strategy despite continuing competitiveness of the PRD
region as a location for labor-intensive manufacturing and
challenges in attracting high-value-added industries. Nevertheless,
the policy has already been declared a success by China's state-run
media, which bodes well for the political future of Party Secretary
Wang Yang. The other provinces of the consular district have
pursued different development strategies with Fujian largely
focusing on strengthening cross-Straits economic ties, Guangxi
enhancing trade and investment with Southeast Asia and Hainan
concentrating on tourism and environmentally sustainable
development. End summary.

Signs of Recovery, Larger Crisis Averted

12. (SBU) You are arriving at the "world's factory floor" just as
optimism is returning to the region's critical export manufacturing
sector. The Pearl River Delta (PRD), especially the export
processing center of Dongguan, was hit hard by the global economic
downturn. But in recent months economic data and commentary from
our contacts in industry have indicated that the PRD is bouncing
back well. Guangdong's GDP growth rate in the first quarter of 2009
was just 5.8%, well below the province's typical performance. But
for the entire first half of the year, growth was 7.1%. The
province's exports in the first quarter of 2009 were down 23.1%

year-on-year, but for the month of September they were down just 8.3% from a year ago. Early reports from the Canton Fair, China's largest export fair, are also good. The first of three phases, which closed in Guangzhou on October 19 indicate that the value of contracts signed rose 26.3% compared with the last session in the spring.

13. (SBU) The outlook of our contacts is also much improved. Less than a year ago, factory owners and industry association leaders were sounding alarm bells warning of wide-scale factory closures and massive layoffs. In the fall of 2008, the leadership of the Dongguan Association of Enterprises with Foreign Investors, which mainly represents Hong Kong investors, told us that 10% of foreign invested enterprises in Dongguan had shut down and expected the ratio to reach as high as 20% by the Lunar New Year holiday. On my mid-October trip to Dongguan, these same business leaders told us that the situation had stabilized. They said orders were now picking up and they expect Dongguan's exports for all of 2009 to be down just 16-17% from 2008. One executive pointed out that 2008 was actually a particularly good year for exports and speculated that 2009's performance would be down only about 7% from 2007, which he said was a more appropriate comparator.

Tighter Labor Market

14. (SBU) The signs of economic recovery also extend to south China's labor market. Predictions of large numbers of migrant workers failing to find work in the PRD and becoming a potential source of social unrest have not materialized. In our most recent conversations with business leaders and labor NGO leaders, they

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report a tighter labor market. Some major multinationals said their factories and suppliers have recently increased hiring in the PRD and are having trouble finding all the workers they need.

Domestic Sales Growing, but Export Orientation Remains

15. (SBU) The continuing expansion of China's domestic economy has also benefitted the PRD and increased its orientation toward the domestic market. The CEO of Nine Dragons, Asia's largest paper manufacturer based in Dongguan, recently told us that exports previously accounted for 44% of the firm's sales, but today that ratio had fallen to about 10%. Other major Chinese manufacturers in the PRD like appliance makers Gree, Galanz and Midea told us earlier this year that domestic sales had continued to show healthy growth even as their exports had stalled or declined. Even companies that continue to focus on exports have praised government efforts to help them develop marketing channels in the domestic market.

16. (SBU) Nevertheless, officials and academics as well as factory owners in the region point out that exports will continue to be a critical economic engine for the PRD. They point out that south China is still one of the world's most competitive manufacturing bases. It has well-developed supply chains, infrastructure and marketing channels to overseas buyers that will preserve its export orientation for years to come.

Reform Laboratory

17. (SBU) Guangdong has been an important testing ground for China's reform policies since "reform and opening" began 30 years ago. The global economic downturn has had an impact on the latest development strategies being tested in south China. Guangdong Party Secretary Wang Yang has championed the "double-transfer" policy, which aims to move both labor-intensive, low-tech, and often polluting manufacturing industries and the large migrant labor workforce out of the PRD to less-developed parts of Guangdong and elsewhere in China. In its place, Guangdong hopes to attract high-technology manufacturing, services and other high-value-added industries to the PRD. The government has been able to create enough incentives to convince some factories to move out of the PRD, but most factory owners we've spoken to have said they want to maintain operations in

the PRD because of the advantages it continues to offer. The economic downturn drove some of the least competitive manufacturers out of business, but the crisis has also created challenges for local governments working to attract investment in high-value-added industries. Even as some high-tech firms like telecommunications equipment manufacturers Huawei and ZTE have flourished, lack of highly skilled workers is one of the obstacles that will continue to impede the PRD's efforts to move up the value chain.

¶8. (SBU) Other major reform efforts include the Pearl River Delta Reform and Development Plan, which was released in December 2008. One of the plan's major goals is to enhance integration of the PRD, both among the municipalities of the PRD area of Guangdong Province, as well as between Guangdong, Hong Kong and Macau. The plan also includes measures supporting the "double-transfer" policy. In addition, Shenzhen is the site of recent political reform programs. However, these measures have amounted to little more than administrative changes largely aimed at enhancing the accountability of officials rather than genuine democratic reform, so their utility and transferability elsewhere remains to be seen.

Wang Yang's Star Rising

¶9. (SBU) While in Guangzhou, you will have an opportunity to meet Guangdong's senior leader, Party Secretary Wang Yang. As a member of the Politburo, Wang is also a key national political figure with

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an important future. The prospects of his signature economic policy, the "double transfer" policy, have serious implications for his future career. Although the policy, by any objective measure, remains a work in progress at best, the People's Daily declared in a front page article in late July that it was a success. This portends well for Wang's chances of moving into a senior leadership position in Beijing after his term in Guangdong ends in 2012. Prior to coming to Guangdong, Wang was a CPC leader in Chongqing; to date he has not been implicated in emerging triad corruption trials there.

Strategies of Other Provinces

¶10. (SBU) The other three provinces in Guangzhou's consular district have different priorities and have pursued economic strategies different from Guangdong's. Fujian is the second most economically developed province in the district and a major source of immigration to the United States. It has been the main focus of our transformational diplomacy efforts with an officer dedicated full-time to expanding our outreach there, especially in Xiamen, where we hope eventually to open a consulate. The province has focused much of its economic development planning on expanded economic ties with Taiwan, which lies directly across the Taiwan Strait. Fujian aims to develop the West Taiwan Strait Economic Zone with infrastructure and incentives to attract Taiwan and other investment.

¶11. (SBU) Guangxi Zhuang Autonomous Region is the consular district's poorest province. Because of its common border with Vietnam and proximity to the rest of Southeast Asia, Guangxi has made enhancing trade and investment relations with ASEAN a key component in its development strategy. It seeks to improve transportation links to Southeast Asia in its Beibu Gulf Economic Zone to attract investment. The island province of Hainan, sometimes called the Hawaii of China, is the smallest in Guangzhou's consular district. It has made tourism and sustainable development priorities in its economic planning.

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